

TOWNSHIP OF MT. FOREST
Bay County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Mt. Forest	County Bay
Audit Date March 31, 2006	Opinion Date August 1, 2006	Date Accountant Report Submitted to State: August 1, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature <i>Campbell, Kusterer & Co., P.C.</i>			

TOWNSHIP OF MT. FOREST
Bay County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

August 1, 2006

To the Township Board
Township of Mt. Forest
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Mt. Forest, Bay County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Mt. Forest's management. Our responsibility is to express opinions on these financial statements based on our audit.

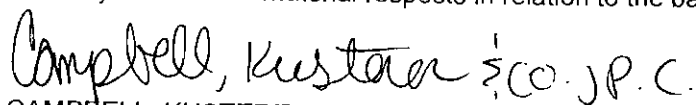
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Mt. Forest, Bay County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF MT. FOREST
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Mt. Forest covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$486,246.33 for governmental activities. Overall total capital assets remained the same.

Overall revenues were \$310,087.96. Governmental activities had a \$21,206.28 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, the Fire Operating Fund, the Fire Equipment Fund, and the Residential Trash Collection Fund.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, the Fire operating Fund, the Fire Equipment Fund, and the Residential Trash Collection Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains stable.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are highways and streets which incurred expenses of \$65,278.14 and building and grounds which incurred expenses of \$24,881.18.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities did not invest in capital assets this year.

The Township paid \$19,813.73 in principal on long-term debt this year.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Treasurer, Shirley Kowalczyk (989) 879-2000 or the Township Clerk, Penny Schwerin (989) 879-7575.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	60 646 79
Investments	209 897 97
Taxes receivable	<u>17 860 26</u>
Total Current Assets	<u>288 405 02</u>
NON-CURRENT ASSETS:	
Capital Assets	572 632 00
Less: Accumulated Depreciation	<u>(207 339 92)</u>
Total Non-current Assets	<u>365 292 08</u>
TOTAL ASSETS	<u>653 697 10</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>584 08</u>
Total Current Liabilities	<u>584 08</u>
NON-CURRENT LIABILITIES:	
Contracts payable	<u>166 866 69</u>
Total Non-current Liabilities	<u>166 866 69</u>
Total Liabilities	<u>167 450 77</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	198 425 39
Unrestricted	<u>287 820 94</u>
Total Net Assets	<u>486 246 33</u>
TOTAL LIABILITIES AND NET ASSETS	<u>653 697 10</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	4 967 49	-	(4 967 49)
General government	86 550 19	25 854 74	(60 695 45)
Public safety	37 585 32	-	(37 585 32)
Public works	121 654 41	55 800 00	(65 854 41)
Culture and recreation	10 165 58	-	(10 165 58)
Other	17 856 10	-	(17 856 10)
Interest on long-term debt	10 102 59	-	(10 102 59)
Total Governmental Activities	<u>288 881 68</u>	<u>81 654 74</u>	<u>(207 226 94)</u>
General Revenues:			
Property taxes			106 045 37
State revenue sharing			105 366 34
Interest			6 641 34
Miscellaneous			<u>10 380 17</u>
Total General Revenues			<u>228 433 22</u>
Change in net assets			21 206 28
Net assets, beginning of year			<u>465 040 05</u>
Net Assets, End of Year			<u>486 246 33</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2006

	<u>General</u>	<u>Fire Operating</u>	<u>Fire Equipment</u>
<u>Assets</u>			
Cash in bank	-	-	50 438 04
Investments	84 338 06	84 979 40	8 075 41
Taxes receivable	<u>4 157 77</u>	<u>4 018 76</u>	<u>2 683 73</u>
Total Assets	<u>88 495 83</u>	<u>88 998 16</u>	<u>61 197 18</u>
<u>Liabilities and Fund Equity</u>			
Liabilities	<u>584 08</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>584 08</u>	<u>-</u>	<u>-</u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	<u>87 911 75</u>	<u>88 998 16</u>	<u>61 197 18</u>
Total fund equity	<u>87 911 75</u>	<u>88 998 16</u>	<u>61 197 18</u>
Total Liabilities and Fund Equity	<u>88 495 83</u>	<u>88 998 16</u>	<u>61 197 18</u>

The accompanying notes are an integral part of these financial statements.

Residential Trash Collection	Total
10 208 75	60 646 79
32 505 10	209 897 97
<u>7 000 00</u>	<u>17 860 26</u>
<u>49 713 85</u>	<u>288 405 02</u>
<u>-</u>	<u>584 08</u>
<u>-</u>	<u>584 08</u>
<u>49 713 85</u>	<u>287 820 94</u>
<u>49 713 85</u>	<u>287 820 94</u>
<u>49 713 85</u>	<u>288 405 02</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	287 820 94
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	572 632 00
Accumulated depreciation	(207 339 92)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds	
Contracts payable	<u>(166 866 69)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>486 246 33</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2006

	<u>General</u>	<u>Fire Operating</u>	<u>Fire Equipment</u>
Revenues:			
Property taxes	34 948 81	42 660 64	28 435 92
Licenses and permits	1 511 00	-	-
State revenue sharing	105 366 34	-	-
Charges for services - PTAF	12 075 74	-	-
Charges for service:			
Hall rental	8 150 00	-	-
Cemetery	4 118 00	-	-
Interest	4 895 37	3 457 00	1 405 08
Special assessments	-	-	-
Miscellaneous	<u>6 923 17</u>	<u>-</u>	<u>-</u>
Total revenues	<u>177 988 43</u>	<u>46 117 64</u>	<u>29 841 00</u>
Expenditures:			
Legislative:			
Township Board	4 967 49	-	-
General government:			
Supervisor	6 877 50	-	-
Elections	1 318 18	-	-
Assessor	8 066 40	-	-
Clerk	11 322 59	-	-
Board of Review	1 035 00	-	-
Treasurer	11 610 54	-	-
Building and grounds	24 881 18	-	-
Cemetery	3 968 75	-	-
Office Supplies	7 533 03	-	-
Unallocated	5 836 72	-	-
Public safety:			
Liquor law enforcement	330 00	-	-
Fire protection	-	20 151 35	-
Ambulance	1 438 00	-	-
Zoning	3 980 69	-	-
Public works:			
Highways and streets	65 278 14	-	-
Street lights	746 77	-	-
Sanitation	-	-	-
Culture and recreation:			
Recreation	10 165 88	-	-
Other:			
Insurance	11 500 00	-	-
Pension	6 356 10	-	-
Debt service	<u>9 509 34</u>	<u>-</u>	<u>20 406 98</u>

The accompanying notes are an integral part of these financial statements.

Residential Trash Collection	Total
-	106 045 37
-	1 511 00
-	105 366 34
-	12 075 74
-	8 150 00
-	4 118 00
340 89	6 641 34
55 800 00	55 800 00
-	10 380 17
<u>56 140 89</u>	<u>310 087 96</u>
-	4 967 49
-	6 877 50
-	1 318 18
-	8 066 40
-	11 322 59
-	1 035 00
-	11 610 54
-	24 881 18
-	3 968 75
-	7 533 03
-	5 836 72
-	330 00
-	20 151 35
-	1 438 00
-	3 980 69
-	65 278 14
-	746 77
55 529 50	55 629 50
-	10 165 88
-	11 500 00
-	6 356 10
<u> </u>	<u>29 616 32</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
Year Ended March 31, 2006

	<u>General</u>	<u>Fire Operating</u>	<u>Fire Equipment</u>
Total expenditures	<u>196 772 30</u>	<u>20 151 35</u>	<u>20 406 98</u>
Excess (deficiency) of revenues over expenditures	(18 733 87)	25 966 29	9 434 02
Other financing sources (uses) :			
Operating transfers in	-	-	15 846 23
Operating transfers out	<u>-</u>	<u>(15 846 23)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>(15 846 23)</u>	<u>15 846 23</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(18 733 87)	10 120 06	25 280 25
Fund balances, April 1	<u>106 645 62</u>	<u>78 878 10</u>	<u>35 916 93</u>
Fund Balances, March 31	<u><u>87 911 75</u></u>	<u><u>88 998 16</u></u>	<u><u>61 197 18</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Residential Trash Collection</u>	<u>Total</u>
<u>55 629 50</u>	<u>292 910 17</u>
511 39	17 177 83
-	15 846 23
<u>-</u>	<u>(15 846 23)</u>
<u>-</u>	<u>-</u>
511 39	17 177 83
<u>49 202 46</u>	<u>270 643 11</u>
<u>49 713 85</u>	<u>287 820 94</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	17 177 83
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(15 785 28)
Capital Outlay	-

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>19 813 73</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>21 206 28</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Mt. Forest, Bay County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Mt. Forest. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF MT. FOREST
Bay County, Michigan
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was 3.4588 mills, and the taxable value was \$30,693,638.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building	50 years
Equipment	15-25 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$365,292.08.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated three banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>60 646 79</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 3 – Deposits and Investments (continued)

	<u>Bank Balances</u>
Insured (FDIC)	60 646 79
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u>60 646 79</u>

The Township's investments are categorized below to give an indication of the level of risk assumed by the Township. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Township or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.

The GASB Statement No. 3 risk disclosures for the Township's investments are categorized as follows:

<u>Investment Type</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
Risk-Categorized: Operating Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Nonrisk-Categorized: Financial Institution Pooled Funds				<u>209 897 97</u>
Total Investments				<u>209 897 97</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	Balance 4/1/05	Additions	Deletions	Balance 3/31/06
<u>Governmental Activities:</u>				
Land	45 000 00	-	-	45 000 00
Building	230 000 00	-	-	230 000 00
Equipment	297 632 00	-	-	297 632 00
Total	572 632 00	-	-	572 632 00
Accumulated Depreciation	(191 554 64)	(15 785 28)	-	(207 339 92)
Net Capital Assets	381 077 36	(15 785 28)	-	365 292 08

Note 5 – Changes in General Long-Term Debt

A summary of changes in general long-term debt follows:

	Balance 4/1/05	Additions	Deductions	Balance 3/31/06
Fire truck contract payable	116 431 41	-	14 131 33	102 300 08
Building contract payable	70 249 01	-	5 682 40	64 566 61
Totals	186 680 42	-	19 813 73	166 866 69

Note 6 – Fire Truck Contract Payable

On April 17, 2002, the Township purchased a new 2002 Pierre International Fire Truck for \$209,635.00. The purchase was financed with an installment agreement requiring an initial payment of \$55,000.00 and ten annual payments of \$20,406.98 including interest at the rate of 5.39% per annum. As of March 31, 2006, the outstanding principal balance was \$102,300.08.

Note 7 – Building Contract Payable

On September 22, 1998, the Township obtained financing in the amount of \$99,500.00 to partially fund the construction of an addition to the Township hall. The installment purchase agreement requires fifteen annual payments of principal and interest at the rate of 5.45% per annum. As of March 31, 2005, the outstanding principal balance was \$64,566.61.

Note 8 – Pension Plan

The Township has a retirement plan covering all full-time employees of the Township. Under the plan, the Township contributes amounts based on the employee's annual earnings for the purchase of annuities. Employees may contribute an additional 10% of their compensation on a voluntary basis. The Township's retirement payments were \$6,356.10 during the fiscal year ended March 31, 2006.

Note 9 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 10 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Building Permits

The Townships of Mt. Forest does not issue building permits. Building permits are issued by an organization named "Township Code Enforcement."

Note 12 – Interfund Transfers

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Fire Equipment	<u>15 846 23</u>	Fire Operating	<u>15 846 23</u>
Total	<u><u>15 846 23</u></u>	Total	<u><u>15 846 23</u></u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	35 497 48	35 497 48	34 948 81	(548 67)
Licenses and permits	2 575 00	2 575 00	1 511 00	(1 064 00)
State revenue sharing	101 330 00	101 330 00	105 366 34	4 036 34
Charges for services:				
Property tax administration	8 900 00	8 900 00	12 075 74	3 175 74
Hall rental	8 000 00	8 000 00	8 150 00	150 00
Cemetery	1 500 00	1 500 00	4 118 00	2 618 00
Interest	1 000 00	1 000 00	4 895 37	3 895 37
Miscellaneous	11 000 00	11 000 00	6 923 17	(4 076 83)
Total revenues	<u>169 802 48</u>	<u>169 802 48</u>	<u>177 988 43</u>	<u>8 185 95</u>
Expenditures:				
Legislative:				
Township Board	5 000 00	5 000 00	4 967 49	(32 51)
General government:				
Supervisor	7 000 00	7 000 00	6 877 50	(122 50)
Elections	2 000 00	1 800 00	1 318 18	(681 82)
Assessor	8 500 00	8 500 00	8 066 40	(433 60)
Clerk	12 000 00	12 000 00	11 322 59	(677 41)
Board to Review	1 500 00	1 500 00	1 035 00	(465 00)
Treasurer	12 000 00	12 000 00	11 610 54	(389 46)
Building and grounds	30 000 00	30 000 00	24 881 18	(5 118 82)
Cemetery	5 000 00	5 000 00	3 968 75	(1 031 25)
Office supplies	10 000 00	10 000 00	7 533 03	(2 466 97)
Unallocated	26 133 26	25 633 26	5 836 72	(19 796 54)
Public safety:				
Liquor law enforcement	330 00	330 00	330 00	-
Ambulance	1 500 00	1 500 00	1 438 00	(62 00)
Zoning	4 000 00	4 000 00	3 980 69	(19 31)
Public works:				
Highways and streets	100 000 00	100 000 00	65 278 14	(34 721 86)
Street lights	1 000 00	1 000 00	746 77	(253 23)
Culture and recreation:				
Recreation	15 000 00	15 000 00	10 165 88	(4 834 12)
Other:				
Insurance	15 000 00	15 000 00	11 500 00	(3 500 00)
Pension	6 000 00	6 500 00	6 356 10	(143 90)
Debt service	10 000 00	10 000 00	9 509 34	(490 66)
Total expenditures	<u>271 963 26</u>	<u>271 963 26</u>	<u>196 722 30</u>	<u>(75 240 96)</u>
Excess (deficiency) of revenues over expenditures	(102 160 78)	(102 160 78)	(18 733 87)	83 426 91
Fund balance, April 1	<u>102 160 78</u>	<u>102 160 78</u>	<u>106 645 62</u>	<u>4 484 84</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>87 911 75</u>	<u>87 911 75</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE OPERATING
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	43 327 45	43 327 45	42 660 64	(666 81)
Miscellaneous	<u>-</u>	<u>-</u>	<u>3 457 00</u>	<u>3 457 00</u>
Total revenues	<u>43 327 45</u>	<u>43 327 45</u>	<u>46 117 64</u>	<u>2 790 19</u>
Expenditures:				
Public safety:				
Fire protection	<u>118 109 56</u>	<u>118 109 56</u>	<u>20 151 35</u>	<u>(97 958 21)</u>
Total expenditures	<u>118 109 56</u>	<u>118 109 56</u>	<u>20 151 35</u>	<u>(97 958 21)</u>
Excess (deficiency) of revenues over expenditures	(74 782 11)	(74 782 11)	25 966 29	100 748 40
Other financing sources (uses):				
Operating transfers out	<u>-</u>	<u>-</u>	<u>(15 846 23)</u>	<u>(15 846 23)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(15 846 23)</u>	<u>(15 846 23)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(74 782 11)	(74 782 11)	10 120 06	84 902 17
Fund balance, April 1	<u>74 782 11</u>	<u>74 782 11</u>	<u>78 878 10</u>	<u>4 095 99</u>
Fund Balance, March 31	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>88 998 16</u></u>	<u><u>88 988 16</u></u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE EQUIPEMENT
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	28 874 73	28 874 73	28 435 92	(438 81)
Interest	<u>-</u>	<u>-</u>	<u>1 405 08</u>	<u>1 405 08</u>
Total revenues	<u>28 874 73</u>	<u>28 874 73</u>	<u>29 841 00</u>	<u>966 27</u>
Expenditures:				
Debt service	<u>61 528 50</u>	<u>61 528 50</u>	<u>20 406 98</u>	<u>(41 121 52)</u>
Total expenditures	<u>61 528 50</u>	<u>61 528 50</u>	<u>20 406 98</u>	<u>(41 121 52)</u>
Excess (deficiency) of revenues over expenditures	(32 653 77)	(32 653 77)	9 434 02	42 087 79
Other financing sources (uses):				
Operating transfers in	<u>-</u>	<u>-</u>	<u>15 846 23</u>	<u>15 846 23</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>15 846 23</u>	<u>15 846 23</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(32 653 77)	(32 653 77)	25 280 25	57 934 02
Fund balance, April 1	<u>32 653 77</u>	<u>32 653 77</u>	<u>35 916 93</u>	<u>3 263 16</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>91 197 18</u>	<u>61 197 18</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – RESIDENTIAL TRASH COLLECTION

Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Interest	-	-	340 89	340 89
Special assessments	<u>16 801 90</u>	<u>16 801 90</u>	<u>55 800 00</u>	<u>38 998 10</u>
Total revenues	<u>16 801 90</u>	<u>16 801 90</u>	<u>56 140 89</u>	<u>39 338 99</u>
Expenditures:				
Legislative:				
Public works:				
Sanitation	<u>58 404 36</u>	<u>58 404 36</u>	<u>55 629 50</u>	<u>(2 774 86)</u>
Total expenditures	<u>58 404 36</u>	<u>58 404 36</u>	<u>55 629 50</u>	<u>(2 774 86)</u>
Excess (deficiency) of revenues over expenditures	(41 602 46)	(41 602 46)	511 39	42 113 85
Fund balance, April 1	<u>41 602 46</u>	<u>41 602 46</u>	<u>49 202 46</u>	<u>7 600 00</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>49 713 85</u>	<u>49 713 85</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

Township Board:	
Salaries	4 800 00
Mileage	167 49
	<u>4 967 49</u>
Supervisor:	
Salary	6 600 00
Mileage	277 50
	<u>6 877 50</u>
Elections:	
Miscellaneous	1 318 18
	<u>1 318 18</u>
Assessor:	
Salary	8 066 40
	<u>8 066 40</u>
Clerk:	
Salary – Clerk	9 900 00
Salary – Deputy Clerk	900 00
Mileage	522 59
	<u>11 322 59</u>
Board of Review	<u>1 035 00</u>
Treasurer:	
Salary – Treasurer	10 100 00
Salary – Deputy Treasurer	720 00
Mileage	790 54
	<u>11 610 54</u>
Building and grounds:	
Operations	24 881 18
	<u>24 881 18</u>
Cemetery:	
Repairs and maintenance	3 968 75
	<u>3 968 75</u>
Office supplies	<u>7 533 03</u>
Unallocated:	
Payroll taxes	3 120 66
Professional services	1 432 60
Dues	1 153 29
Miscellaneous	130 17
	<u>5 836 72</u>
Liquor law enforcement:	
Wages	330 00
	<u>330 00</u>
Ambulance:	
Contracted services	1 438 00
	<u>1 438 00</u>
Zoning:	
Per diem and expenses	3 980 69
	<u>3 980 69</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

Highways and streets:	
Repairs and maintenance	<u>65 278 14</u>
Street lighting:	
Utilities	<u>746 77</u>
Recreation:	
Repairs and maintenance	<u>10 165 88</u>
Insurance	<u>11 500 00</u>
Pension	<u>6 356 10</u>
Debt services	<u>9 509 34</u>
Total Expenditures	<u><u>196 722 30</u></u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in bank	-	896 215 93	896 215 93	-
Total Assets	<u>-</u>	<u>896 215 93</u>	<u>896 215 93</u>	<u>-</u>
<u>Liabilities</u>				
Due to other funds	-	156 250 01	156 250 01	-
Due to other units	<u>-</u>	<u>739 965 92</u>	<u>739 965 92</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>896 215 93</u>	<u>896 215 93</u>	<u>-</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year Ended March 31, 2005

Cash in bank – beginning of year	<u>-</u>
Cash receipts:	
Property tax	886 735 05
Animal licenses	576 00
Property tax administration fees	8 802 70
Interest	<u>102 18</u>
Total cash receipts	<u>896 215 93</u>
Total beginning balance and cash receipts	<u>896 215 93</u>
Cash disbursements:	
Township General Fund	43 055 94
Township Fire Operating Fund	38 641 88
Township Fire Equipment Fund	25 752 19
Township Residential Trash Collection Fund	48 800 00
Bay County	461 289 36
Bay Metro Transit Authority	20 819 24
Delta College	56 731 99
Bay Arenac Intermediate School District	137 265 93
Pinconning Area School District	62 609 09
Refunds	<u>1 250 31</u>
Total cash disbursements	<u>896 215 93</u>
Cash in Bank – End of Year	<u><u>-</u></u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

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P.O. BOX 686
BAY CITY, MICHIGAN 48707

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FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

August 1, 2006

To the Township Board
Township of Mt. Forest
Bay County, Michigan

We have audited the financial statements of the Township of Mt. Forest for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Mt. Forest in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Mt. Forest
Bay County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2006. The implementation of this pronouncement for the Township of Mt. Forest began with the year ended March 31, 2006. The daily operations and recording transactions did not change significantly; however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

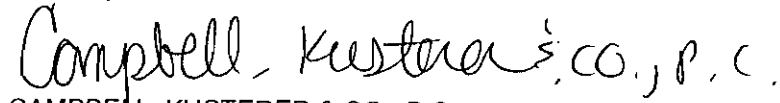
These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

To the Township Board
Township of Mt. Forest
Bay County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Campbell, Kusterer & Co., P.C.".

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants